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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MAY 7, 2001

APPLICATION OF

SHENANDOAH GAS, A DIVISION  
OF WASHINGTON GAS LIGHT  
COMPANY

CASE NO. PUE000278

For an Annual Informational  
Filing

ORDER ADOPTING RECOMMENDATIONS  
AND DISMISSING PROCEEDING

On October 30, 2000, Shenandoah Gas ("Shenandoah" or "the Company"), a Division of Washington Gas Light Company ("WGL"), filed its Annual Informational Filing ("AIF") with the State Corporation Commission ("Commission"). The Company's AIF included financial and operating data for the twelve months ended June 30, 2000.

On March 30, 2001, the Staff filed its report on Shenandoah's application. Among other things, the Staff noted that in Shenandoah's last rate case, Case No. PUE970616, the Commission authorized a return on equity range of 10.2%-11.2% for the Company. Staff reserved the right to address the cost of capital ramifications of WGL's interest rate hedge agreements in the next rate proceeding involving Shenandoah and its operations.

In its accounting analysis, among other things, Staff noted that the effect of its adjustments was to increase the Company's return on rate base to 9.6% and its return on common equity to 12.32%, a return on equity above the return on equity range authorized for the Company. Staff did not recommend any action on the Company's rates at this time, pending receipt of the Company's AIF based for the twelve months ending December 31, 2000, to be filed on May 31, 2001. However, Staff proposed that Shenandoah and WGL make adjustments in their AIFs for the twelve months ended 2000, similar to those that would be made in a general rate application. Staff further recommended that the Company be required to file Schedules 8 and 22 in addition to the schedules usually required to be filed with an AIF. It noted that WGL's capital structure would be used to calculate the cost of capital for WGL and Shenandoah, based on these Companies' respective cost of equity ranges.

On April 20, 2001, Shenandoah, by counsel, filed comments in response to the Staff Report. In its comments, Shenandoah noted that Staff excluded approximately \$1.8 million of "Materials and Supplies" from Shenandoah's working capital allowance. In addition, the Company proposed a modification to the Staff's income tax adjustment. According to the Company, these two adjustments further reduced Shenandoah's return on equity for the twelve months ended June 30, 2000, to 11.34%--14

basis above the return on equity range authorized for Shenandoah and within the return on equity range authorized for WGL.

Shenandoah represented that it has been advised that Staff would withdraw its proposals that the Company be required to file Schedules 8 and 22 with its next AIF and that WGL be required to file general rate case adjustments with its next AIF. Shenandoah agreed to include with its next AIF supplemental schedules showing the Company's adjusted return on equity after adjustments permitted in a general rate case if, after adjustments permitted in the AIF, Shenandoah's adjusted return exceeded its authorized return on equity range of 10.2%-11.2%. The Company reserved the right to propose additional adjustments if, after review, Staff determined that Shenandoah's return on a fully adjusted basis during the test year ended December 31, 2000, exceeded its authorized return on equity range. Shenandoah requested that the Commission dismiss the case in accordance with its comments.

On April 26, 2001, the Staff filed its Reply to the Company's comments. In its Reply, the Staff accepted Shenandoah's proposed modifications to Staff's cash working capital and income tax adjustments. It noted that if these modifications were made to the Company's cost of service, Shenandoah's adjusted return on equity would be 11.34%, approximately 14 basis points above the return on equity range

established for Shenandoah, but within the return on equity range of 11.0%-12.0% authorized for WGL.

Staff concurred with Shenandoah's proposal that the Company should file general rate case adjustments and supplemental schedules showing the Company's adjusted return on equity after adjustments permitted in a general rate case with the Company's next AIF if, after the adjustments usually permitted in an AIF, Shenandoah's adjusted return on equity exceeds its authorized return on equity range of 10.2%-11.2%. Staff commented that it expected Shenandoah to file all material general rate case adjustments if the Company's adjusted return on equity exceeds its 10.2%-11.2% authorized return on equity range. Staff withdrew its recommendations that (i) Shenandoah file Schedules 8 and 22 with its next AIF; and (ii) that WGL be required to file general rate case adjustments with its next AIF. Subsequent to the filing of its Reply, Staff has advised that Shenandoah has authorized it to represent that the Company does not desire to file any further responses in this matter.

NOW, UPON CONSIDERATION of the Company's application, the Staff Report, Shenandoah's comments thereto, and the Staff's Reply to Shenandoah's comments, the Commission is of the opinion and finds that the agreement reached by Staff and Shenandoah concerning Shenandoah's AIF is appropriate and should be accepted; that Shenandoah should be required to file all

material general rate case adjustments and include supplemental schedules showing the Company's adjusted return on equity after the adjustments permitted in a general rate case with its next AIF if, after the adjustments usually permitted in an AIF, Shenandoah's adjusted return on equity exceeds its authorized return on equity range of 10.2%-11.2%; and that this matter should be dismissed from the Commission's docket of active proceedings.

Accordingly, IT IS ORDERED THAT:

(1) In accordance with its representation, Shenandoah shall include with its next AIF for which Docket No. PUE010075 has been reserved supplemental schedules showing the Company's adjusted return on equity after employing the adjustments permitted in a general case, if the adjustments permitted in the AIF demonstrate that the Company's adjusted return on equity exceeds its authorized return on equity range of 10.2%-11.2%.

(2) This matter shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein made a part of the Commission's files for ended causes.